4.0 SYSTEMS OPTIONS

Reengineering Options and Analysis – System Options

To support the Common Origination and Disbursement Process, a COTS market analysis was conducted. The objective was to identify potential vendors that have the ability to satisfy SFA high-level business requirements for origination and disbursement using their packaged software products. The analysis included major products and/or vendors in the financial services industry and the FFELP/guarantee agency community.

Current major Department Title IV systems, RFMS and LOS are also considered as reengineering options, as the Department already owns these systems. The Campus-Based System was not considered as it is not a transactional system with student-level reporting and reconciliation. Each option below presumes that Campus-Based support must be a custom-developed enhancement.

This section documents the major technical solutions to support the new Common Origination and Disbursement Process.

As the preliminary steps in documenting COTS systems, we undertook an effort to evaluate vendors and their products as they relate to future SFA capabilities, industry best practices, and high-level business requirements for Title IV Programs that involve funds drawn through the Department. To this end, we:

➢ Defined COTS screening criteria including overarching, functional, technical, quality, and vendor requirements
➢ Delivered request for information
➢ Conducted interviews and follow-on interviews
➢ Evaluated data gathered

The reengineering options are:
➢ Option 1: Acquire a financial services industry COTS package
➢ Option 2: Acquire a FFELP/Guarantee agency software package
➢ Option 3: Custom develop a system for Common Origination and Disbursement using an existing ED/SFA owned system (either RFMS or LOS is used as the 'base' system and the other two systems are incorporated into the 'base' system)
➢ Option 4: The Campus-Based, Pell, and Direct Loan systems are left 'as is' and integrated with middleware software
➢ Option 5: The Campus-Based System is reengineered and absorbed by either RFMS or LOS and the latter two systems are integrated with middleware
➢ Option 6: Custom develop a new system for Common Origination and Disbursement from scratch to completely replace RFMS, LOS and CBS

Note: All options require the Campus-Based System to be reengineered.

Option 1:

Acquire a financial services industry COTS software package. The acquired COTS package will be customized to support Common Origination and Disbursement Process, Direct Loan, Pell, and Campus-Based programs.

Systems Evaluated

The systems evaluated for this option include Alltel's Advanced Loan System (ALS) and Total System Services, Inc. TS2 system.

Alltel's ALS is a highly flexible system supporting an unlimited number of loan types and financial transactions. The system's modularized design allows for fast product creation without additional coding. ALS employs industry best practices for web capability, credit scoring and trend analysis, reconciliation and reconciliation reports, retroactive processing, system flexibility and customization, workflow management, and support for data warehousing. The system provides for not only loan origination but also provides modules for loan consolidation and servicing. Alltel, a leader in defining and implementing financial services industry best practices, sells and licenses ALS.

Total System Services, Inc. TS2 system is parameter driven and allows for custom portfolio hierarchy based on specific business requirements. TS2 employs numerous industry best practices including web capability, multiple loan types, credit scoring, reconciliation reports, retroactive processing, system flexibility, and workflow management.

* Financial services industry best practices are included in Appendix A.

Benefits	Costs	Risks

• **Enhancement costs shared with other licensees after initial acquisition or license fee**
• **One software solution for Campus-Based, Pell, and Direct Loan Programs**
  • **Reduce data and process redundancy**
  • **Reduce operating costs**
  • **Reduce number of system interfaces**
• **Financial services industry best practices***
	• **Acquisition, maintenance and other start-up costs of system**
	• **Add new functionality to support Department funded Title IV Programs**
	• **Build interfaces to other Department systems**
	• **Department will bear total cost for Department specific enhancements**
	• **Training of OSFA employees on new system**
	• **Transition costs of operating 3 systems (assume CBS part of new system)**
		• **Conversion of existing data**
		• **Total retirement of existing systems**
		• **Degree of package customization reduces cost savings of implementing package solution**
		• **Package solution for base components causes significant change in Department business processes**

Option 2:

Acquire a FFELP/Guarantee agency software package. Acquire a software package from the Federal Family Education Loan Program (FFELP)/Guarantee Agency industry. The acquired package will be customized to support Common Origination and Disbursement Process, Direct Loan, Pell, and Campus-Based programs.

Systems Evaluated

The systems evaluated for this option include USA Funds Eagle II guarantor system, Colorado State Loan Program, and the Texas State Guarantee Agency.

USA Funds Eagle II guarantor system, released in 1999, base package provides for origination and disbursement, and includes FFELP guidelines. Regulatory changes are provided to customers for installation (negotiable as part of RFP). Add-on packages provide web capability, P-Note imaging, workflow management and an expert system to aid in due diligence management, among other features. Although USA Funds has not done so in the past, there is interest to license its software.

Colorado State Loan Program (CSLP) and the Colorado Servicing Consortium provide services to the FFELP community. The CSLP package not only includes origination and disbursement processing but also a paperless option for Master Promissory Notes (MPN), Just-In-Time disbursements, web-based internet products allowing schools to enter changes through a web site. The CSLP's E2 Disbursement Clearinghouse does reconciliation automatically once the school enters the cancellation or other type of adjustment on-line or batch.

Texas State Guarantee Agency did not have key personnel available to respond during the preliminary evaluation period, but is still under consideration.

Benefits	Costs	Risks

• **Less customization required since system already provides FFELP guidelines**
 • **One system for Campus-Based, Pell, and Direct Loan Programs**
   • **Reduce data and process redundancy**
   • **Reduced operating costs**
   • **Reduce number of system interfaces**
 • **Some financial services industry best practices**
 • **Maintenance costs include:**
   • **Any annual Compliance upgrades**
   • **Upgrades based on Re-authorizations**
	• **Purchase, maintenance and other start-up costs of system**
	 • **Add new functionality to support Department funded Title IV Programs**
	 • **Build interfaces to other Department systems**
	 • **Multi-year transition costs of operating 3 systems (assume CBS part of new solution)**
	 • **Department will bear total cost for Department specific enhancements**
	 • **Training of OSFA employees on new system**
		• **Conversion of existing data**
		 • **Total retirement of existing systems**
		 • **Degree of package customization reduces cost savings of implementing package solution**

Option 3:

Custom develop a system for Common Origination and Disbursement using an existing ED/SFA owned system (either RFMS or LOS is used as the 'base' system and the other two systems are incorporated into the 'base' system). One common system for Campus-Based, Pell, and Direct Loan programs modified for the Common Origination and Disbursement Process. Either RFMS or LOS is used as the 'base' system and the other two systems are incorporated into the 'base' system. The Campus-Based System is reengineered, both technically and functionally.

Benefits	Costs	Risks
• One system for Campus-Based, Pell, and Direct Loan Programs • Cost savings – Department already owns software and licenses • Uses significant knowledge capital already in place • Minimizes data conversion risks • Minimal impact to customers	• Costs to migrate either RFMS or LOS to one platform • Costs to reengineer the Campus-Based System	• Conversion of existing data • Total retirement of 2 remaining systems

Option 4:

Campus-Based, Pell, and Loan Origination Systems remains 'as is', and the systems are integrated using middleware. No common 'base' system is implemented. Three systems still exists supported by three vendors. CBS is not reengineered. Middleware products are used to integrate the three systems. Common Origination and Disbursement Process implemented on all current systems.

Benefits	Costs	Risks

• **Cost savings – Department already owns software and licenses**
• **Uses significant knowledge capital already in place**
• **No data conversion required**
• **Minimal impact to customers**
	• **Does not deliver student level reconciliation due to CBS limitations**
	• **High operating costs**
	  • **Annual updates to three systems**
	  • **Annual system maintenance for three systems**
	  • **Technical customer support for three systems**
	• **Cost to implement COD on three systems**
	• **Middleware product costs**
	• **Systems Integration costs**
		• **No increase in customer satisfaction**
		• **Limited decrease in cost of delivering financial aid**
		• **CBS does not have student detail level reporting capability**

Option 5:
The Campus-Based System is reengineered and absorbed by either RFMS or LOS and the latter 2 systems are integrated with middleware. Two systems still exist RFMS and LOS, and are integrated using Middleware products. Common Origination and Disbursement Process implemented by both systems.

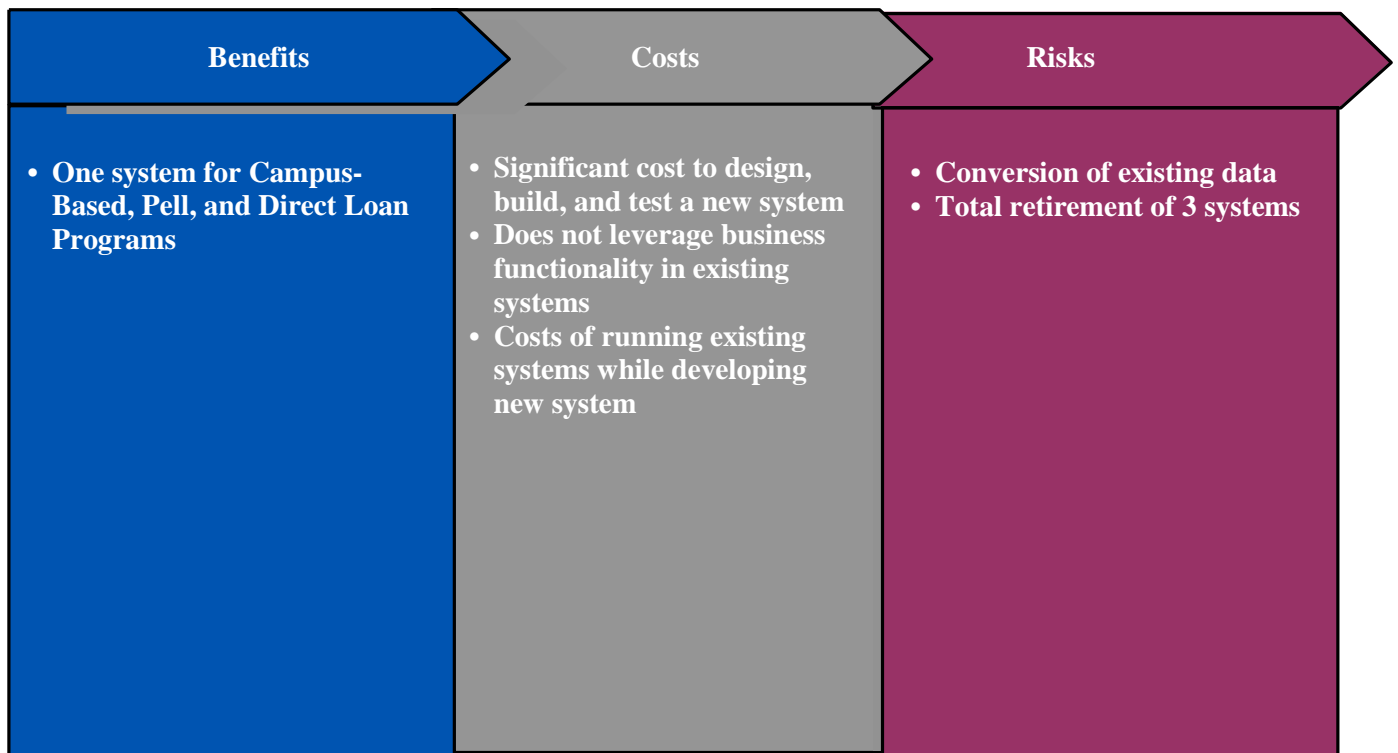| Benefits	Costs	Risks
▪ **Cost savings – Department already owns software and licenses** ▪ **Uses significant knowledge capital already in place** ▪ **Minimal impact to customers**	▪ **High operating costs** ▪ **Annual updates to two systems** ▪ **System maintenance for two systems** ▪ **Technical customer support for two systems** ▪ **Cost to implement COD on two systems** ▪ **Middleware product costs** ▪ **System Integration costs**	• **Limited decrease in cost of delivering financial aid** • **Customers not provided with needed requirements such as real-time access to data so customer satisfaction levels stagnate or decrease**

Option 6:
Custom develop a new system for Common Origination and Disbursement from scratch to completely replace RFMS, LOS and CBS.
One common system for Campus-Based, Pell, and Direct Loan is custom developed. The Campus-Based System is reengineered, both technically and functionally.

Benefits	Costs	Risks
• One system for Campus-Based, Pell, and Direct Loan Programs	• Significant cost to design, build, and test a new system • Does not leverage business functionality in existing systems • Costs of running existing systems while developing new system	• Conversion of existing data • Total retirement of 3 systems

Appendix A: Financial services industry best practices

The following are best practices of the financial services industry, but this does not imply that these are the same best practices that are required for COD:

1. e-Servicing

Loan Servicing

- access current information on loan applications, disbursements, loan balances and status, payments and interests.
- update contact information, download forbearance forms, and view payment history.
- e-Banking - The ability for a customer to make payments directly from bank accounts using automatic debits, and other electronic banking functions.
- Debit Card – Electronic Debit Account (EDA)
- Bill Presentation and Payment

Loan Origination

- prospective borrowers can apply for loans on-line and get loan approval/decline results within minutes.
- parents can also apply for PLUS loans and have their credit check done within minutes.

Loan Consolidation

- allows submittal of loan consolidation requests

2. Credit scoring and trend analysis for loan origination and servicing

- optimize due diligence servicing

3. Full support of multiple loan types

- subsidized and unsubsidized

4. Accounting Reconciliation Reports

- detail and summary levels

5. System Flexibility and Customization

- control table driven - system can be tailored to meet needs, such as set-up of loan types, interest rate changes, and deferment rules
- modular approach allowing product options to be added, such as loan origination, loan consolidation, and internet packages.

6. Retroactive Processing

- immediately update account records to reflect the most current information when payments are made or separation date changes

7. Work Flow Management

- provide work flow management technology

8. Data Warehouse Support

- provide data warehouse or support for data warehouse creation